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SENSITIVE
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E.O. 12958: N/A
TAGS: [ECON](#) [EAGR](#) [ETRD](#) [CH](#)
SUBJECT: CHINA--"BUY LOCAL" POLICIES ON THE RISE

REFS: A. Beijing 583
[1](#)B. Beijing 433

(U) This cable is Sensitive but Unclassified.
Please protect accordingly. It incorporates
contributions from posts throughout the China
Mission.

[1](#)1. (SBU) Summary: Some Chinese provincial and sub-provincial governments are responding to the economic slowdown by adopting "buy local" measures designed to boost consumption of their locally-produced products. Measures have included consumer incentives as well as directives or preferences for governments and state owned enterprises (SOE's). These measures appear targeted at intra-China competitors rather than international import substitution, although implementation details are still scarce. The Chinese official press has generally slammed these "buy local" policies. See paragraph 10 for unofficial translated summaries and links to publicly available Chinese-language "buy local" policy documents and news reports. End Summary.

Buy Local

[1](#)2. (SBU) "Buy local" measures have recently been adopted or are under consideration in a number of localities, including Anhui, Guangxi, Hainan, Henan, Hubei, Hunan, and Jilin provinces, as well as Changchun, Haikou and Hangzhou municipalities. These measures include issuance of coupons for local consumers that require purchase of locally-produced goods, as well as directives or incentives for local government entities and state owned enterprises (SOE's) to buy from local companies. In some cases the measures specify that the good must also be produced locally.

[1](#)3. (SBU) Targeted products reportedly include autos, auto parts, alcoholic beverages, certain agricultural products, home appliances, cell phones, computers, steel, coal, construction equipment, as well as travel and tourism services. On February 17, for example, the Hubei Provincial Government issued an "Opinion on Promoting Wuhan Steel Products for

Provincial Internal Use" which "encourages" provincial government projects involving machinery, autos, home appliances, shipbuilding, railroads, and construction to use steel produced by Wuhan Steel Company. According to Hangzhou City government websites, an 18 percent rebate is available for buying locally-produced home appliances. (See para 10 for further examples and Ref A on "Appliances to the Countryside" programs that may have "buy local" features.)

Some Localities Resist

14. (SBU) Some local officials appear aware that these measures may not be consistent with China's overall liberalization efforts. People's Congress members in Wuhan, according to a Chinese press report, recently decided to delete a clause in a draft city government work report to develop and implement policies to encourage consumers to buy local products because they felt the measure amounted to regional protectionism.

15. (SBU) On February 25 and 26, officials in Shandong and Jiangxi told Econoffs in separate meetings that their provinces were not using any "buy local" measures. In Jiangxi, the official from the provincial Development and Reform Commission said these measures are not being adopted "because that is local protectionism." Other officials in

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Jiangxi noted that Jiangxi's industrial sector is small, decreasing the motivation to adopt "buy local" policies.

Beijing Noncommittal

16. (SBU) Commentators in the official national media, including newspapers, radio, and television have condemned such regional or local protectionism. Some have even cited such "beggar thy neighbor" policies as having the potential to stall China's overall goal of creating a large domestic demand-driven economy.

17. (SBU) The Central Government has stated that it opposes national "Buy China" policies (Ref B), but has not taken an official stand on "buy local" measures. However, as far as we can determine the Central Government thus far has not taken action to halt the measures already implemented.

Comment

18. (SBU) Although many of the measures appear to lack enforcement measures, the powerful role of government in shaping business decisions makes this a worrisome trend for China's ongoing reforms and efforts to break down local protectionism. Now that local governments are facing tighter economic times, old habits may reemerge as they perceive an environment where their neighbors' success takes from their own piece of China's economic growth pie.

19. (SBU) The implementing regulations and other details for China's "buy local" policies, as well as official translations, are not available, so Post is not able to make a determination as to whether these measures constitute prohibited subsidies in terms of the WTO Agreement on Subsidies and Countervailing Measures (ASCM). It is also difficult to tell how much U.S. trade will be affected. Statistics are

not available on sales of key U.S. products for different Chinese localities, but for many of the covered purchases, U.S. market share is relatively small, particularly in the specific localities where a "buy local" measure may be in force. We suspect that most "buy local" programs will hurt other provinces more than foreign imports. End Comment.

Appendix

¶10. (U) To assist Washington agencies further evaluation of the "buy local" measures, we are providing brief summaries and Internet links below to available Chinese language official documents and news reports. The legal status and accuracy of measures reported in the local media in many cases have not been confirmed.

Anhui Province:

--Anhui Provincial Government's 31 October 2008 "Opinion on Promoting Stable and Relatively Fast Growth" Article 9 says every level of the Anhui Government should give preference to Anhui-made goods, such as automobiles, cigarettes, alcohol, home appliances, etc.
(http://www.ahjw.gov.cn/Info/file/20081151027_500.pdf)

--According to a news report in the Nanyang Post (<http://www.nanyangpost.com/news/china/1715.html>) the Anhui measures stipulate that: 1) auto manufacturers "must" buy steel from Anhui steel producers, 2) starting in March, construction and home appliance companies "must cooperate" with Ma'anshan Steel, 3) starting in April, all power

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plants "must cooperate" with the four big coal mines in Anhui, 4) starting in May, to help increase sales of locally-produced Chery and JAC automobiles in Anhui Province, government agencies and Anhui taxi companies are encouraged to buy their vehicles from Chery and JAC.

Fujian Province:

--Fujian Provincial Government's 21 November 2008 "General Office Suggestions on Supporting Market Development for Industrial Products" states that products made in Fujian should be given priority in all procurement for government stimulus projects.
(<http://www.fzda.gov.cn/wjzxshow.asp?id=5840>)

Guangxi Zhuang Autonomous Region:

--According to a 16 February 2009 report on the Liuzhou City Small and Medium Enterprises Service Center website, the Guangxi Government organized a meeting on 12 February 2009 with Guangxi Liugong Group, a construction machinery manufacturer with six major state-owned construction companies and government economic agencies. At the meeting the six major construction companies signed a long-term agreement to encourage use of Liugong's products in their construction projects. (Note: Liugong competes with Caterpillar. End Note.)
(<http://www.smelz.gov.cn/news/165413.htm>)

--The Liuzhou Municipal Government issued a policy to encourage local companies, government agencies and other entities to buy local equipment for projects carried out in Liuzhou, according to a 30 November 2008 news story listed on the Guangxi Government website. The measures include cash awards for automakers that make progress in using

local auto parts. For automakers that used 60 percent or more local auto parts last year, if they can use 1 percent more local auto parts this year, leaders from the enterprises can win a RMB 150,000 (USD 22,000) cash award from the government. Similar awards are available to automakers with lower percentages of local content and local auto parts suppliers whose sales revenue exceed RMB 800 million (USD 117 million). (Note: Liuzhou City is home to a GM joint venture auto factory as well as a number of other car manufacturers. End Note.) (http://www.gxi.gov.cn/jjyw/jjyw_gx/jjyw_gx_j_jyw/200811/t20081130_93555.htm)

Hainan Province:

--According to a 16 January 2009 story from the Haikou Evening News listed on the Hainan Provincial Government website (http://www.hainan.gov.cn/data/news/2009/01/6_8396/), since last year, the Haikou Municipal Government (provincial capital of Hainan) has encouraged all government agencies to purchase local products in order to help local companies weather the global economic crisis. Starting in 2009 Haima automobiles made in Haikou will be given priority in government procurement and for new taxies. Locally produced alcohol will be used in meals hosted by government agencies. In a 15 January 2009 session of Provincial People's Congress a Hainan Provincial Government party official said other cities in Hainan should learn from Haikou and many representatives supported the adoption of "buy local" measures.

Henan Province:

--The Henan Provincial Government's 19 January 2009 "Opinions on Promoting the Stable and Relatively Fast Growth of the Industrial Economy" states that locally produced buses, subsidized farm

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equipment and other materials will receive preference by government purchasing bodies. The measure also covers purchases of government cars, environmental equipment, medicine, subsidized rural appliances, goods for government meetings and receptions, and materials for provincial fixed asset investment projects. (<http://www.henan.gov.cn/zwgk/system/2009/02/09/010117869.shtml>)

Hubei Province:

--Hubei Provincial Government's 17 February 2009 "Opinion on Promoting Wuhan Steel Products for Provincial Internal Use" encourages provincial projects involving machinery, auto, home appliances, shipbuilding, railroads, and construction to use steel produced by Wuhan Steel Company. (http://www.hubei.gov.cn/xwfbh/xwfbh2009/0901/xwfbh200902/t20090217_91122.htm)

Hunan Province:

--Hunan Provincial Government's 23 January 2009 "Opinion on Promoting the Stable and Relatively Fast Development of Industrial Enterprises" states that government entities should actively purchase automobiles as well as other goods produced in the province. The document also "encourages" other entities and residents to purchase passenger and commercial vehicles made in the province and says locally produced goods should be used for key engineering and construction projects.

(http://www.hnjmw.gov.cn/prog/infor/publish/M_sgView_kxfzg.jsp?MsgID=10733)

Jilin Province:

--Jilin Provincial Government's 5 February 2009 "Opinions on the Current Promotion of Economic Development by the Financial Sector" states that financial institutes/banks can promote the sales of First Auto Works vehicles by adjusting loan terms and required collateral.
(http://www.jl.gov.cn/btxw/200902/t20090220_5_25018.htm)

Sichuan Province:

--According to a 10 February 2009 online news report, the Chengdu municipal government issued consumption coupons valued in RMB 37.91 million to 379,100 low-income people, RMB 100 per person, on 20 December 2008. They were required to use all coupons by 31 January 2009. Consumers were required to buy rice, vegetable oil and other basic necessities with the coupons in designated department stores. Department stores encouraged consumers to buy "Chengdu products." According to the story, "local factories and enterprises benefited from the measure."
(<http://business.sohu.com/20090210/n262141295.shtml>)

--According to a 5 February 2009 online news report, the Sichuan Provincial Government has launched an "electric appliances for rural areas" campaign. Local products were encouraged, especially Sichuan-made products. According to the report, of all color TV sets and cell phones sold to the rural areas in Sichuan, over 50 percent were made by the Changhong factory in Sichuan. Changhong is one of the biggest color TV factories in China.
(http://www.stockcity.cn/auto/qcpl/2009-02-05/auto_20090205110306_1301916.html)

Zhejiang Province:

--The Hangzhou City Government Finance and Local Tax Bureau 10 February 2009 "Explanation of Consumer

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Spending Coupon Policy" (Part II, Article 3, second paragraph) states that an 18 percent rebate is available to certain lower income, handicapped, and elderly residents to purchase locally produced goods.
http://www.hzft.gov.cn/jpm/portal?action=infoDetailAction&eventSubmit_doInfodetail=doInfodetail&id=29285). The Hangzhou Finance and Tax Bureau press conference lists the four types of Hangzhou-made goods that qualify for the 18 percent rebate -- TVs, refrigerators, washing machines, and cell phones.
(http://www.hzft.gov.cn/jpm/portal?action=infoDetailAction&eventSubmit_doInfodetail=doInfodetail&id=29268)

Others:

We have also seen reports mentioning "buy local" measures in Guangdong and Shandong Provinces, but have not yet been able to locate specific information.

PICCUTA